

**COCHISE COUNTY, ARIZONA**  
**Single Audit Reporting Package**  
**June 30, 2001**

**COCHISE COUNTY, ARIZONA**  
**Single Audit Reporting Package**  
**June 30, 2001**

**Table of Contents**

**Page**

**Report on Audit of Primary Government Financial Statements**

Independent Auditors' Report.....	1
Combined Balance Sheet—All Fund Types and Account Groups.....	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—All Governmental Fund Types.....	6
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual—General and Special Revenue Fund Types.....	7
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual—Capital Projects Fund Types.....	10
Combined Statement of Revenues, Expenses, and Changes in Fund Equity-- All Proprietary Fund Types.....	11
Combined Statement of Cash Flows—All Proprietary Fund Types.....	12
Statement of Net Assets—Investment Trust Fund.....	13
Statement of Changes in Net Assets—Investment Trust Fund.....	14
Notes to Financial Statements.....	15
Supplementary Information	
Schedule of Expenditures of Federal Awards.....	35
Notes to Schedule of Expenditures of Federal Awards.....	38

**Reports on Compliance and Internal Control**

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Primary Government Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	41
--	----

**COCHISE COUNTY, ARIZONA**  
**Single Audit Reporting Package**  
**June 30, 2001**  
**(Continued)**

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.....	43
<b>Schedule of Findings and Questioned Costs</b>	
Summary of Auditors' Results.....	46
Financial Statement Findings.....	47
Federal Award Findings and Questioned Costs.....	48

**County Responses**

Corrective Action Plan.....	52
-----------------------------	----

The Auditor General of the State of Arizona

The Board of Supervisors of  
Cochise County, Arizona

We have audited the accompanying primary government financial statements of Cochise County, Arizona, as of and for the year ended June 30, 2001, as listed in the table of contents. These primary government financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these primary government financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the financial position of the primary government of Cochise County as of June 30, 2001, and the results of its operations, the cash flows of its proprietary fund types, and the net assets and changes in net assets of its investment trust fund for the year then ended in conformity with U.S. generally accepted accounting principles.

However, the primary government financial statements, because they do not include the financial data of the component unit of Cochise County do not purport to, and do not, present fairly the financial position of Cochise County, as of June 30, 2001, and the results of its operations, the cash flows of its proprietary fund types, and the net assets and changes in net assets of its investment trust fund for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the primary government financial statements of Cochise County taken as a whole. The accompanying schedule of expenditures of federal awards listed in the table of contents is presented for purposes of additional analysis as

Cochise County, Arizona  
December 12, 2001

required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the primary government financial statements. Such information has been subjected to the auditing procedures applied in the audit of the primary government financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the primary government financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2001, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

CHRISTENSEN, GALE & MCLAREN, LLP

December 12, 2001

**THIS PAGE LEFT BLANK INTENTIONALLY**

**COCHISE COUNTY**  
**Combined Balance Sheet — All Fund Types and Account Groups**  
**June 30, 2001**

	<u>Governmental Fund Types</u>			<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Account Groups</u>	
Assets	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long- Term Debt</u>
Cash and cash equivalents	\$ 125,530	\$ 546,855	\$	\$ 1,050	\$ 200	\$ 1,111,947	\$	\$
Cash and Investments held by County Treasurer	7,311,458	8,019,771	4,358,610	3,918,904	405,445	58,970,542		
Cash and investments held by trustee	369,839							
Investments				3,860,954				
Receivables (net of allowances for uncollectibles):								
Property taxes	805,957	140,091						
Accounts	463,470	194,515		322,471	19,625			
Accrued interest	23,281	25,537	13,879	29,333	1,292	184,908		
Other								
Due from:								
Other funds	630,200	682,464		578,520	130,690			
Other governments	1,771,089	3,063,254	265,433	372,155	3,776			
Prepaid items				43,750	26,775			
Fixed assets:								
Land				1,591,500			1,798,660	
Buildings				1,041,963	160,160		14,805,813	
Accumulated depreciation				(320,535)	(11,281)			
Improvements other than buildings				515,456			886,286	
Accumulated depreciation				(210,490)				
Machinery and equipment				1,661,123	5,984,569		9,224,232	
Accumulated depreciation				(1,150,120)	(3,203,679)			
Construction in progress (estimated cost to complete - \$ 917,000)				3,185,183			5,708,848	
Amount to be provided for retirement of general long-term debt								4,627,608
Total assets	<u>\$ 11,500,824</u>	<u>\$ 12,672,487</u>	<u>\$ 4,637,922</u>	<u>\$ 15,441,217</u>	<u>\$ 3,517,572</u>	<u>\$ 60,267,397</u>	<u>\$ 32,423,839</u>	<u>\$ 4,627,608</u>

(Continued)

See accompanying notes to financial statements.

**COCHISE COUNTY**  
**Combined Balance Sheet — All Fund Types and Account Groups**  
**June 30, 2001**  
**(Continued)**

	<u>Governmental Fund Types</u>			<u>Proprietary Fund Types</u>		<u>Fiduciary</u>	<u>Account Groups</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>
Liabilities and Fund Equity								
Liabilities:								
Accounts payable	\$ 646,431	\$ 964,100	\$ 160,464	\$ 2,155,678	\$ 140,520	\$	\$	\$
Accrued payroll and employee benefits	611,637	234,146		135,057	9,107			2,420,652
Due to:								
Other funds	242,196	835,906	5,407	922,808	15,557			
Other governments		324,349						
Deposits held for others		209,904				1,111,947		
Obligations under capital leases								66,956
Landfill closure and postclosure care costs payable				1,671,398				
Certificates of participation payable								2,140,000
Deferred revenues	656,763	230,937		2,280				
<b>Total liabilities</b>	<u>2,157,027</u>	<u>2,799,342</u>	<u>165,871</u>	<u>4,887,221</u>	<u>165,184</u>	<u>1,111,947</u>	<u>-</u>	<u>4,627,608</u>
Fund equity:								
Contributed capital				158,906	671,958			
Investment in general fixed assets							32,423,839	
Retained earnings, unreserved				10,395,090	2,680,430			
Fund balances:								
Reserved for certificates of participation	370,754							
Reserved for investment trust participants						59,155,450		
Unreserved	<u>8,973,043</u>	<u>9,873,145</u>	<u>4,472,051</u>					
<b>Total fund equity</b>	<u>9,343,797</u>	<u>9,873,145</u>	<u>4,472,051</u>	<u>10,553,996</u>	<u>3,352,388</u>	<u>59,155,450</u>	<u>32,423,839</u>	<u>-</u>
<b>Total liabilities and fund equity</b>	<u>\$ 11,500,824</u>	<u>\$ 12,672,487</u>	<u>\$ 4,637,922</u>	<u>\$ 15,441,217</u>	<u>\$ 3,517,572</u>	<u>\$ 60,267,397</u>	<u>\$ 32,423,839</u>	<u>\$ 4,627,608</u>

See accompanying notes to financial statements.

**COCHISE COUNTY**  
**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**All Governmental Fund Types**  
**Year Ended June 30, 2001**

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Revenues:			
Taxes	\$ 20,351,576	\$ 2,222,802	\$ 1,684,961
Licenses and permits	194,012		
Intergovernmental	11,860,652	20,197,311	1,947,973
Charges for services	1,791,104	1,731,624	
Fines and forfeits	1,715,110	833,630	
Investment income	614,941	445,197	285,899
Miscellaneous	364,088	596,740	-
Total revenues	<u>36,891,483</u>	<u>26,027,304</u>	<u>3,918,833</u>
Expenditures:			
Current:			
General government	15,547,115	6,699,217	31,038
Public safety	9,618,986	2,031,010	
Highways and streets		8,276,868	
Sanitation	430,116	208,812	
Health and welfare	8,522,508	3,456,909	
Culture and recreation	85,888	839,611	
Education	273,499	226,669	
Capital outlay	1,433,477	1,052,972	3,988,055
Debt service:			
Principal retirement	400,000		
Interest and fiscal charges	114,115	8,331	
Total expenditures	<u>36,425,704</u>	<u>22,800,399</u>	<u>4,019,093</u>
Excess of revenues over (under) expenditures	465,779	3,226,905	(100,260)
Other financing sources (uses):			
Operating transfers in	129,136	917,464	900,808
Operating transfers out	(638,358)	(987,406)	(905,337)
Reversion to grantors		(79,479)	
Capital lease agreements		60,048	
Total other financing sources (uses)	<u>(509,222)</u>	<u>(89,373)</u>	<u>(4,529)</u>
Excess of revenues and other sources over (under) expenditures and other uses	(43,443)	3,137,532	(104,789)
Fund balances, July 1, 2000	9,384,983	6,749,223	4,565,839
Residual equity transfers in	2,257	5,797	11,001
Residual equity transfers out		(19,407)	
Fund balances, June 30, 2001	<u>\$ 9,343,797</u>	<u>\$ 9,873,145</u>	<u>\$ 4,472,051</u>

See accompanying notes to financial statements.

**COCHISE COUNTY**  
**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual—General and Special Revenue Fund Types**  
**Year Ended June 30, 2001**

	General Fund			Special Revenue Funds		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:						
Taxes	\$ 20,346,613	\$ 20,351,576	\$ 4,963	\$ 2,261,411	\$ 2,222,802	\$ (38,609)
Licenses and permits	19,000	194,012	175,012			
Intergovernmental	11,585,757	11,860,652	274,895	22,118,718	20,197,311	(1,921,407)
Charges for services	1,571,670	1,791,104	219,434	1,545,666	1,731,624	185,958
Fines and forfeits	1,600,888	1,715,110	114,222	281,998	833,630	551,632
Investment income	327,000	614,941	287,941	238,077	445,197	207,120
Miscellaneous	123,350	364,088	240,738	2,859,287	596,740	(2,262,547)
Total revenues	<u>35,574,278</u>	<u>36,891,483</u>	<u>1,317,205</u>	<u>29,305,157</u>	<u>26,027,304</u>	<u>(3,277,853)</u>
Expenditures:						
Current:						
General government:						
Assessor	1,272,911	1,220,688	52,223			
Attorney	1,262,438	1,219,968	42,470	2,446,972	1,430,307	1,016,665
Board of Supervisors	685,984	584,769	101,215			
Elections	221,191	234,390	(13,199)			
Finance	473,875	459,537	14,338			
Purchasing	123,221	137,035	(13,814)			
Human Resources	253,826	244,170	9,656			
Risk Management	684,288	595,178	89,110			
Planning and Zoning	459,928	436,321	23,607			
Community Development	105,400	85,888	19,512	604,880	209,001	395,879
Recorder	194,102	191,427	2,675	199,604	124,254	75,350
Voter Registration	70,638	60,383	10,255			
Treasurer	909,518	849,886	59,632			
Public Defender	848,150	778,080	70,070	20,284		20,284
Legal Defender	570,483	529,176	41,307	9,200	7,094	2,106
Willcox airport operations	24,275	12,611	11,664			
Facilities management	1,090,768	1,063,525	27,243			
Utilities	626,784	641,256	(14,472)			
General government	1,912,309	(1,572,708)	3,485,017	3,723,300	2,327,724	1,395,576
Justice of the Peace Courts	1,480,190	1,387,350	92,840			
Court administration	645,357	593,945	51,412			
Superior Court divisions	754,044	720,653	33,391			
Mandatory judicial services	210,101	192,341	17,760			
Mandatory indigent defense	554,906	639,281	(84,375)			
Court security	195,637	213,408	(17,771)			
Clerk of the Superior Court	1,008,575	998,090	10,485			
Adult probation	324,912	308,476	16,436	1,737,480	1,548,783	188,697
Juvenile court services	752,278	750,786	1,492	1,217,605	1,052,054	165,551
Sierra Vista Constable	134,532	131,482	3,050			
Constables	68	62	6			
Information Technologies	833,205	787,022	46,183			
IT Communications	659,898	602,749	57,149			
IT capital reserve	1,445,530	449,890	995,640			
High intensity drug trafficking areas				235,118		235,118
Total general government	<u>20,789,322</u>	<u>15,547,115</u>	<u>5,242,207</u>	<u>10,194,443</u>	<u>6,699,217</u>	<u>3,495,226</u>

(Continued)

See accompanying notes to financial statements.

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual—General and Special Revenue Fund Types**  
**Year Ended June 30, 2001**

	General Fund			Special Revenue Funds		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Public Safety:						
Sheriff	8,276,952	7,990,655	286,297	1,276,621	281,753	994,868
Emergency services	72,352	71,376	976			
Medical Examiner	150,000	150,000				
Juvenile detention	682,125	613,027	69,098			
Jail medical services	456,808	419,274	37,534			
Jail counselor	63,755	52,483	11,272			
Building inspection division	334,778	322,171	12,607			
General government				2,108,302	1,455,474	652,828
High intensity drug trafficking areas				973,449	293,783	679,666
Total public safety	<u>10,036,770</u>	<u>9,618,986</u>	<u>417,784</u>	<u>4,358,372</u>	<u>2,031,010</u>	<u>2,327,362</u>
Highways and streets:						
Public Works				<u>10,901,953</u>	<u>8,276,868</u>	<u>2,625,085</u>
Sanitation:						
Environmental health	<u>469,367</u>	<u>430,116</u>	<u>39,251</u>	<u>122,362</u>	<u>208,812</u>	<u>(86,450)</u>
Health and welfare:						
Administration	595,166	454,513	140,653			
Medical assistance	7,075,323	7,026,177	49,146			
Respite	11,000	10,928	72			
Nursing and community services	560,609	499,153	61,456			
Mental health	180,772	178,944	1,828			
Public fiduciary	366,959	352,793	14,166			
Health and social services				3,563,699	3,456,909	106,790
Housing				<u>1,665,248</u>	<u>1,665,248</u>	<u>0</u>
Total health and welfare	<u>8,789,829</u>	<u>8,522,508</u>	<u>267,321</u>	<u>5,228,947</u>	<u>3,456,909</u>	<u>1,772,038</u>
Culture and recreation:						
County library		<u>85,888</u>	<u>(85,888)</u>	<u>984,857</u>	<u>839,611</u>	<u>145,246</u>
Education:						
School Superintendent	<u>278,526</u>	<u>273,499</u>	<u>5,027</u>	<u>408,640</u>	<u>226,669</u>	<u>181,971</u>
Capital outlay:	<u>2,288,664</u>	<u>1,433,477</u>	<u>855,187</u>	<u>2,508,539</u>	<u>1,052,972</u>	<u>1,455,567</u>
Debt Service:						
Principal retirement	402,998	400,000	2,998	16,094	8,331	7,763
Interest and fiscal charges	<u>114,115</u>	<u>114,115</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total debt service	<u>517,113</u>	<u>514,115</u>	<u>2,998</u>	<u>16,094</u>	<u>8,331</u>	<u>7,763</u>
Total expenditures	<u>43,169,591</u>	<u>36,425,704</u>	<u>6,743,887</u>	<u>34,724,207</u>	<u>22,800,399</u>	<u>11,923,808</u>
Excess of revenues over (under) expenditures	<u>(7,595,313)</u>	<u>465,779</u>	<u>8,061,092</u>	<u>(5,419,050)</u>	<u>3,226,905</u>	<u>8,645,955</u>

(Continued)

See accompanying notes to financial statements.

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual—General and Special Revenue Fund Types**  
**Year Ended June 30, 2001**

	General Fund			Special Revenue Funds		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Other financing sources (uses)						
Operating transfers in	631,021	129,136	(501,885)	758,202	917,464	159,262
Operating transfers out	(523,715)	(638,358)	(114,643)	(1,149,249)	(987,406)	161,843
Capital lease agreements					60,048	60,048
Reversion to grantors					(79,479)	(79,479)
Total other financing sources (uses)	<u>107,306</u>	<u>(509,222)</u>	<u>(616,528)</u>	<u>(391,047)</u>	<u>(89,373)</u>	<u>301,674</u>
Excess of revenues and other sources over (under) expenditures and other uses	(7,488,007)	(43,443)	7,444,564	(5,810,097)	3,137,532	8,947,629
Fund balances, July 1, 2000	7,488,007	9,384,983	1,896,976	5,811,280	6,749,223	937,943
Residual equity transfer, net		2,257	2,257	(1,183)	(13,610)	(12,427)
Fund balances, June 30, 2001	<u>\$</u>	<u>\$ 9,343,797</u>	<u>\$ 9,343,797</u>	<u>\$</u>	<u>\$ 9,873,145</u>	<u>\$ 9,873,145</u>

See accompanying notes to financial statements.

**COCHISE COUNTY**  
**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual—Capital Projects Fund Types**  
**Year Ended June 30, 2001**

	<u>Capital Projects Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Taxes	\$ 1,748,050	\$ 1,684,961	\$ (63,089)
Intergovernmental Revenue	2,147,973	1,947,973	(200,000)
Investment Income	150,000	285,899	135,899
Miscellaneous Revenue	<u>                    </u>	<u>(8,299)</u>	<u>(8,299)</u>
Total Revenues	<u>4,046,023</u>	<u>3,910,534</u>	<u>(135,489)</u>
Expenditures:			
General Government	3,817,539	22,739	3,794,800
Capital Outlay	<u>4,685,630</u>	<u>3,988,055</u>	<u>697,575</u>
Total Expenditures	<u>8,503,169</u>	<u>4,010,794</u>	<u>4,492,375</u>
Excess of revenues over (under) expenditures	<u>(4,457,146)</u>	<u>(100,260)</u>	<u>4,356,886</u>
Other financing sources (uses):			
Operating transfers in	900,808	900,808	
Operating transfers out	<u>(981,491)</u>	<u>(905,337)</u>	<u>76,154</u>
Total other financing sources	<u>(80,683)</u>	<u>(4,529)</u>	<u>76,154</u>
Excess of revenues and other sources over expenditures and other uses	(4,537,829)	(104,789)	4,433,040
Fund balance, July 1, 2000	4,537,829	4,565,839	28,010
Residual equity transfers in	<u>                    </u>	<u>11,001</u>	<u>11,001</u>
Fund balances June 30, 2001	<u>\$</u>	<u>\$ 4,472,051</u>	<u>\$ 4,472,051</u>

See accompanying notes to financial statements.

**COCHISE COUNTY**  
**Combined Statement of Revenues, Expenses, and Changes in**  
**Fund Equity — All Proprietary Fund Types**  
**Year Ended June 30, 2001**

	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>
Operating revenues:		
Charges for services	\$ 23,461,026	\$ 1,225,842
Health plan contributions		3,058,353
Miscellaneous	<u>53,809</u>	<u>373,297</u>
Total operating revenues	<u>23,514,835</u>	<u>4,657,492</u>
Operating expenses:		
Personal services	2,181,281	209,832
Supplies	546,470	584,695
Professional services	18,401,399	
Contractual services	1,039,865	3,217,292
Repairs and maintenance		4,291
Landfill closure and postclosure care costs	229,834	
Depreciation	157,540	530,169
Other	<u>522,473</u>	<u>25,118</u>
Total operating expenses	<u>23,078,862</u>	<u>4,571,397</u>
Operating income	<u>435,973</u>	<u>86,095</u>
Nonoperating revenues (expenses):		
Intergovernmental	362,547	24,170
Investment income	565,356	36,504
Gain (Loss) on disposal of fixed assets	<u>(2,222)</u>	<u>821</u>
Total nonoperating revenues	<u>925,681</u>	<u>61,495</u>
Income before operating transfers	1,361,654	147,590
Operating transfers in	958,814	573,498
Operating transfers out	<u>(948,619)</u>	<u>          </u>
Net income	1,371,849	721,088
Fund equity, July 1, 2000, as restated	9,181,796	2,631,300
Increase in contributed capital	<u>351</u>	<u>          </u>
Fund equity, June 30, 2001	<u>\$ 10,553,996</u>	<u>\$ 3,352,388</u>

See accompanying notes to financial statements.

**COCHISE COUNTY**  
**Combined Statement of Cash Flows — All Proprietary Fund Types**  
**Year Ended June 30, 2001**

	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>
Cash flows from operating activities:		
Operating income	\$ 435,973	\$ 86,095
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	157,540	530,169
Changes in assets and liabilities:		
Increase in:		
Accounts receivable	(167,686)	(10,616)
Due from other funds	(342,501)	
Due from other governments		(3,776)
Prepaid items		(26,775)
Accounts payable	393,593	94,365
Accrued payroll and employee benefits	5,712	
Due to other funds	779,441	14,118
Landfill closure and postclosure care costs payable	229,834	
Deferred revenue	2,280	
Decrease in:		
Prepaid items	25,000	
Accrued payroll and employee benefits		(1,286)
Net cash provided by operating activities	1,519,186	682,294
Cash flows from noncapital financing activities:		
Grant receipts	362,549	24,170
Cash transfers from other funds	958,814	573,498
Cash transfers to other funds	(948,619)	
Residual equity transfer	351	
Due from other funds		11,589
Due from other governments	108,552	
Net cash provided by noncapital financing activities	481,647	609,257
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(3,030,178)	(1,528,236)
Proceeds from sale of equipment		31,300
Net cash used for capital and related financing activities	(3,030,178)	(1,496,936)
Cash flows from investing activities:		
Acquisition of investments	(2,192,173)	
Interest received on investments	581,479	38,326
Net cash provided by (used for) investing activities	(1,610,694)	38,326
Net decrease in cash and cash equivalents	(2,640,039)	(167,059)
Cash and cash equivalents, July 1, 2000, as restated	6,559,993	572,704
Cash and cash equivalents, June 30, 2001	\$ 3,919,954	\$ 405,645
Cash and Cash Equivalents, July 1, 2001, consist of:		
Cash in bank and on hand	\$ 1,050	200
Cash and investments held by County Treasurer	3,918,904	405,445
Totals	\$ 3,919,954	\$ 405,645
Noncash capital activities:		
(Gain) loss on disposal of assets	\$ 2,222	\$ (821)

See accompanying notes to financial statements.



**COCHISE COUNTY**  
**Statement of Changes in Net Assets**  
**Investment Trust Fund**  
**Year Ended June 30, 2001**

	<u><b>Treasurer's Investment Pool</b></u>
Additions:	
Contributions from participants	\$ 160,436,909
Investment income:	
Interest and dividend income	<u>5,352,916</u>
Total investment income	<u>5,352,916</u>
 Total additions	 <u>165,789,825</u>
 Deductions:	
Distributions to participants	<u>165,765,870</u>
Total deductions	<u>165,765,870</u>
 Net increase in net assets	 23,955
 Net assets held in trust:	
July 1, 2000	<u>59,131,495</u>
June 30, 2001	<u>\$ 59,155,450</u>

See accompanying notes to financial statements.

**COCHISE COUNTY**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Cochise County conform to U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the County's more significant accounting policies follows.

The County's major operations include general government, public safety, highway and street maintenance and construction, sanitation, health, welfare, culture and recreation, and education. In addition, the County owns and operates two enterprise activities: a landfill and an airport.

**A. Reporting Entity**

The County is a general purpose local government that is governed by a separately elected board of three county supervisors. These general purpose financial statements present all the fund types and account groups of the County (a primary government).

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the County. The County has no blended component units.

Although the Cochise Private Industry Council, Inc. is a legally separate entity from the County, the Board of Supervisors of the County appoints all members of the Council's governing board and therefore the Council meets the criteria for discrete presentation. However, the Council has separate independent auditors and its audited financial statements for its June 30 year-ends are generally not available by the primary government's financial statements' issuance date. Consequently, the Council is not included in this report as a discretely presented component unit. When available, complete annual financial statements of the Council may be obtained at its administrative offices at 77 Calle Portal, Suite C-220, Sierra Vista, AZ 85635.

**B. Fund Accounting**

The County's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the County's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds or account groups in accordance with the activities or objectives specified for those resources.

Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses. Account groups are reporting devices to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

**COCHISE COUNTY**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 1 - Summary of Significant Accounting Policies (continued)**

Accounts are separately maintained for each fund and account group; however, in the accompanying financial statements, funds that have similar characteristics have been combined into generic fund types that are further classified into broad fund categories. A description of the County's fund categories, types, and account groups follows.

**1. Governmental Funds** account for the County's general government activities using the flow of current financial resources measurement focus and include the following fund types:

The *General Fund* is the County's primary operating fund. It accounts for all financial resources of the County, except those required to be accounted for in other funds.

The *Special Revenue Funds* account for specific revenue sources, other than major capital projects, that are legally restricted to expenditures for specified purposes.

The *Capital Projects Funds* account for resources to be used for acquiring or constructing major capital facilities, other than those financed by Proprietary Funds.

**2. Proprietary Funds** account for the County's ongoing activities that are similar to those found in the private sector using the flow of economic resources measurement focus. The County applies all applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The County's proprietary funds include the following fund types.

The *Enterprise Funds* account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent of the Board of Supervisors is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or for which the Board of Supervisors has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The *Internal Service Funds* account for the financing of goods or services provided by the department or agency to other County departments or agencies, or to other governments on a cost-reimbursement basis.

**3. Fiduciary Funds** account for assets the County holds on behalf of others, and include the following fund types.

The *Investment Trust Funds* account for investments made by the County on behalf of other governmental entities using the economic resources measurement focus.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. This fund is used to account for assets that the government holds for others in an agency capacity.

**COCHISE COUNTY**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 1 - Summary of Significant Accounting Policies (continued)**

**4. Account Groups** are used to establish control and accountability for certain County assets and liabilities that are not recorded in the funds and include the following two groups.

The *General Fixed Assets Account Group* accounts for all of the County's fixed assets, except those accounted for in Proprietary Funds.

The *General Long-Term Debt Account Group* accounts for all of the County's long-term obligations, except those accounted for in Proprietary Funds.

**C. Basis of Accounting**

The financial statements of the Governmental and Agency Funds are presented on the modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance current-period expenditures. Expenditures are recognized when the related fund liability is incurred, except for principal and interest on general long-term debt that are recognized when due.

Revenues susceptible to accrual are property taxes; franchise taxes; special assessments; licenses and permits; intergovernmental aid, grants, and reimbursements; interest revenue; charges for services; and sales taxes collected and held by the State at year-end on the County's behalf. Fines and forfeits, rents, contributions, and miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The financial statements of the Proprietary and Investment Trust Funds are presented on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**D. Budgeting and Budgetary Control**

Arizona Revised Statutes (A.R.S.) require the County to prepare and adopt a balanced budget annually for each separate fund. The Board of Supervisors must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. prohibit expenditures or liabilities in excess of the amounts budgeted.

Essentially, the County prepares its budget on the same modified accrual basis of accounting used to record actual revenues and expenditures.

The County has adopted budgets in accordance with the A.R.S. requirements for the General, Special Revenue and Capital Projects Funds. Formal budget integration is not employed for the Internal Service and Enterprise Funds because effective budgetary control is alternatively achieved through the capability of cost recovery.

**COCHISE COUNTY**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 1 - Summary of Significant Accounting Policies (continued)**

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon approval of the Board of Supervisors. With the exception of the General Fund, each fund includes only one department.

Encumbrance accounting, under which purchase orders, contracts, and other commitments to expend monies are recorded to reserve that portion of the applicable fund balance, is employed as an extension of formal budgetary control. Encumbrances outstanding at year-end for goods or services that were not received before fiscal year-end are canceled. However, the County may draw warrants against encumbered amounts for goods or services received but unpaid at June 30 for 60 days immediately following the close of the fiscal year. After 60 days the remaining encumbered balances lapse.

**E. Cash and Investments**

For purposes of its statement of cash flows, the County considers only those highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

**F. Inventories**

Purchases of inventory items are recorded at the time of purchase as expenditures in the funds from which the purchases were made; and because the amounts on hand at June 30, 2001, were immaterial, they are not included in the balance sheet.

**G. Fixed Assets**

Purchased fixed assets capitalized in the General Fixed Assets Account Group are recorded at the time of purchase as expenditures in the funds from which the expenditures were made. Such assets are capitalized at cost. Donated fixed assets are capitalized at their estimated fair market value at the time received.

Depreciation on general fixed assets is not recorded, and interest incurred during construction is not capitalized. Also, public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, such as roads, bridges, curbs and gutters, streets and sidewalks, drainage, and lighting systems, are not capitalized.

**COCHISE COUNTY**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 1 - Summary of Significant Accounting Policies (continued)**

Purchased fixed assets of the Proprietary Funds are capitalized in those funds at cost. Major outlays for assets or improvements to them are capitalized as projects are constructed. Interest incurred during the construction phase of the project is capitalized net of interest earned on the invested proceeds over the same period. Donated fixed assets are capitalized at their estimated fair market value at the time received. Depreciation of fixed assets in the Proprietary Funds is charged as an expense against operations. These assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5 – 20 years
Vehicles	8 years

**H. Compensated Absences**

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered.

Employees may accumulate up to 240 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued. However, for employees who have completed 15 years of service, sick leave benefits up to 1,040 hours (or 3,120 hours for Ambulance Drivers) do vest and, therefore, are accrued.

The amount of compensated absences expected to be paid by available financial resources is recorded as a current liability at June 30 in the General and Special Revenue Funds. The remaining noncurrent amount of compensated absences of the Governmental Funds is recorded in the General Long-Term Debt Account Group. Vested compensated absences of the Proprietary Funds are recorded as expenses and liabilities of those funds as the benefits accrue to employees.

**I. Investment Income**

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

**COCHISE COUNTY**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 1 - Summary of Significant Accounting Policies (continued)**

**J. Property Taxes**

Property taxes are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end, or collected in advance of the fiscal year for which they are levied, are reported as deferred revenues.

**K. Intergovernmental Grants and Aid**

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Reimbursement grants for the acquisition of fixed assets of Proprietary Fund Types are recorded as intergovernmental receivables and contributed capital when the related expense is incurred. All other reimbursement grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred. Reimbursements not received within 60 days subsequent to fiscal year-end are reported as deferred revenues.

**Note 2 - Individual Fund Deficits**

The deficit fund balances in individual Special Revenue Funds at June 30, 2001, were as follows:

<u>Fund</u>	<u>Deficit Balance</u>
Special Revenue Funds:	
Adult Probation Comm. Punishment	\$ 976
Juv. Probation State Aid Enhancement	7,275
Diversion Intake	13,625
Adult Probation I.P.S. Grant	26,847
Juv. Probation Surveillance Grant	4,015
Court Improvement Program	2,043
Sunsites Light District	152
Gold Acres Light District	57
Pirtleville Light District	1,394
Sierra Vista Burglary	92
Local JCEF JP #1	2,744
JAIBG Detention Project	41
CASA Grant	6,789

These deficits resulted from operations during the year, but are expected to be corrected through normal operations or operating transfers from the General Fund in fiscal year 2001-2002.

**COCHISE COUNTY**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 3 - Deposits and Investments**

Arizona Revised Statutes authorize the County to invest public monies in the State Treasurer's investment pool; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

**County Treasurer's Investment Pool**—Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer (see Note 13). Those monies are pooled with County monies for investment purposes.

*Deposits*—At June 30, 2001, the investments pool had cash on hand of \$130,665. The carrying amount of the pool's total cash in bank was \$615,083 and the bank balance was \$856,035. Of the bank balance, \$500,000 was covered by federal depository insurance and \$356,035 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name.

*Investments*—At June 30, 2001, the investments in the County Treasurer's investment pool consisted of the following.

	Fair Value
Investment in State Treasurer's Investment pool	\$ 72,138,982
U.S. government securities	<u>10,100,000</u>
Total	<u>\$ 82,238,982</u>

The State Board of Deposit provides oversight for the State Treasurer's pools and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk. All other investments were insured or registered in the County's name, or were held by the County or its agent in the County's name.

**COCHISE COUNTY**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 3 - Deposits and Investments (continued)**

*Other Deposits*—At June 30, 2001, the total nonpooled cash on hand was \$5,315. The carrying amount of the County's total nonpooled cash in bank was \$1,780,267 and the bank balance was \$1,951,112. Of the bank balance 877,222 was covered by federal depository insurance or by collateral held by the County or its agent in the County's name; and \$1,073,890 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name.

**Other Investments**—At June 30, 2001, the County's nonpooled investments consisted of the following.

	Fair Value
Investment in State Treasurer's investment pool	<u>\$ 3,860,954</u>

The State Board of Deposit provides oversight for the State Treasurer's pools and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk.

**Cash & Investments held by trustee**— At June 30, 2001, the County's cash and investments held by trustee totaling \$369,839, was the reserve requirement for the Series 1996 Certificates of Participation. All of the balance, was covered by collateral with securities held by the counterparty, or by its trust department or agent but not in the County's name.

A reconciliation of cash and investments to amounts shown on the combined balance sheet follows.

Cash and investments:

	County Treasurer's Investment Pool	Other	Total
Cash on hand	\$ 130,665	\$ 5,315	\$ 135,980
Carrying amount of deposits	615,083	2,150,106	2,765,189
Reported amount of investments	<u>82,238,982</u>	<u>3,860,954</u>	<u>86,099,936</u>
Total	<u>\$ 82,984,730</u>	<u>\$ 6,016,375</u>	<u>\$ 89,001,105</u>

**COCHISE COUNTY**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 3 - Deposits and Investments (continued)**

Combined balance sheet:	
Cash and cash equivalents	\$ 1,785,582
Cash and investments held by County Treasurer	82,984,730
Cash and investments held by trustee	369,839
Investments	<u>3,860,954</u>
 Total	 <u><u>\$ 89,001,105</u></u>

**Note 4 - Property Taxes Receivable**

The County levies real property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later.

A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy.

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer's Office. At June 30, 2001, the uncollected property taxes and related allowances for uncollectibles were as follows:

Fiscal Year	General Fund	Special Rev Funds
2000-01	\$ 796,620	\$ 139,064
Prior	311,629	47,664
	<u>1,108,249</u>	<u>186,728</u>
Less allowances for uncollectibles	302,292	46,637
Net total	<u><u>\$ 805,957</u></u>	<u><u>\$ 140,091</u></u>

That portion of property taxes receivable not collected within 60 days after June 30, 2001, has been deferred and, consequently, is not included in current-year revenues.

**Note 5 - Due from Other Governments**

Amounts due from other governments at June 30, 2001, include \$615,142 in state-shared revenue from highway user taxes and \$778,665 in state sales tax, \$588,416 in state vehicle license tax, and \$868,728 in county excise tax. The balance of \$2,624,756 represents various grants from the state and federal governments.

**COCHISE COUNTY**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 6 - Changes in General Fixed Assets**

A summary of the changes in general fixed assets follows:

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Land	\$ 1,822,160	\$	\$ 23,500	\$ 1,798,660
Buildings	14,787,240	18,573		14,805,813
Improvements other than buildings	886,286			886,286
Machinery and equipment	7,773,506	2,128,368	677,642	9,224,232
Construction in progress	1,729,938	3,997,483	18,573	5,708,848
Total	<u>\$ 26,999,130</u>	<u>\$ 6,144,424</u>	<u>\$ 719,715</u>	<u>\$ 32,423,839</u>

**Note 7 - Certificates of Participation Payable**

During the year ended June 30, 1997, the County issued \$3,600,000 in certificates of participation with an average interest rate of 4.52 percent to refund \$3,475,000 of outstanding certificates of participation, with an average interest rate of 6.52 percent. The certificates are callable on or after August 1, 2001, with interest payable semiannually.

Principal and interest requirements at June 30, 2001, were as follows:

Description	Interest Rates	Maturities	Outstanding Principal July 1, 2000	Retirements	Outstanding Principal June 30, 2001
PHS Mortgage, Inc. 1996 Series	4.0% to 4.9%	1997-2005	\$ 2,540,000	\$ 400,000	\$ 2,140,000
		Total	<u>\$ 2,540,000</u>	<u>\$ 400,000</u>	<u>\$ 2,140,000</u>

Certificates of participation debt service requirements to maturity, including \$264,665 of interest, are as follows:

Year ending June 30,	
2002	\$ 516,090
2003	529,750
2004	540,122
2005	536,965
2006	281,738
Total	<u>\$ 2,404,665</u>

**COCHISE COUNTY**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 8 - Obligations Under Leases**

**Capital Leases**—The County has acquired buildings, office equipment, and vehicles under the provisions of various long-term lease agreements classified as capital leases for accounting purposes because they provide for a bargain purchase option or a transfer of ownership by the end of the lease term. Accordingly, such assets totaling \$115,867 at June 30, 2001, are capitalized in the General Fixed Assets Account Group.

The future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments at June 30, 2001, were as follows:

Year ending June 30,	<u>General Long-Term Debt Account Group</u>
2002	\$ 25,880
2003	25,880
2004	15,293
2005	8,620
Total minimum lease payments	<u>75,673</u>
Less amount representing interest	8,717
Present value of net minimum lease payments	<u><u>\$ 66,956</u></u>

**Operating Leases**—The County leases buildings, office equipment, and vehicles under the provisions of various long-term lease agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of the operating leases were \$332,894 for the year ended June 30, 2001. The operating leases have remaining noncancelable lease terms of 5 months to 10 years and provide renewal options.

**COCHISE COUNTY**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 8 - Obligations Under Leases (continued)**

The future minimum rental payments required under the operating leases at June 30, 2001, were as follows:

Year ending June 30,	General Fund	Special Rev Funds	Enterprise Funds
2002	\$ 43,703	\$ 20,084	\$ 3,017
2003	8,169	7,536	877
2004	8,169	3,100	
2005	4,671	3,100	
2006	1,200	3,100	
Thereafter	4,800		
Total minimum payments required	<u>\$ 70,712</u>	<u>\$ 36,920</u>	<u>\$ 3,894</u>

**Note 9 - Landfill Closure and Postclosure Care Costs**

State and federal laws and regulations require the County to place a final cover on its Eastern Regional Landfill (ERL) site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will not be paid until near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. In addition, the County has entered into intergovernmental agreements to provide for the closure of five other municipalities' landfills. These five landfills have stopped accepting waste and the closure activities have been completed as of the balance sheet date. The \$1,671,398 reported as landfill closure and postclosure care liability at June 30, 2001, represents the cumulative amount reported to date based on the use of 95 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$58,129 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal year 2001. The County expects to close the landfill in the fiscal year 2002, and the actual cost may be higher due to inflation, changes in technology, or changes in regulations.

According to state and federal laws and regulations, the County must comply with the local government financial test requirements that assure the County can meet the costs of landfill closure, postclosure, and corrective action when needed. The County is in compliance with these requirements.

**COCHISE COUNTY**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 10 - Risk Management**

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters; but was unable to obtain insurance at a cost it considered to be economically justifiable. Therefore, the County joined and is covered by two public entity risk pools: the Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool.

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium, based on its exposure in relation to the exposure of the other participants, and a deductible of \$25,000 for each property damage and crime occurrence or \$50,000 for each liability occurrence. The County is also responsible for any payments in excess of the maximum coverage of \$10 million for each occurrence. A County must participate in the pool at least three years after becoming a member; however, it may withdraw after the initial three-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

The Arizona Counties Workers' Compensation Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties with workers' compensation coverage, as required by law, and risk management services. The County is responsible for paying a premium, based on an experience rating formula, that allocates pool expenditures and liabilities among the members.

The Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool receive independent audits annually and an audit by the Arizona Department of Insurance triennially. Both pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation.

**Note 11 - Changes in Long-Term Liabilities**

A summary of changes in the liabilities reported in the General Long-Term Debt Account Group were as follows:

	<u>Balance</u> <u>July 1, 2000</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2001</u>
Accrued payroll and employee benefits	\$ 2,217,974	\$ 202,678	\$	\$ 2,420,652
Obligations under capital leases	25,968	60,048	19,060	66,956
Certificates of participation Payable	2,540,000		400,000	2,140,000
Total	<u>\$ 4,783,942</u>	<u>\$ 262,726</u>	<u>\$ 419,060</u>	<u>\$ 4,627,608</u>

**COCHISE COUNTY**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 12 - Retirement Plans**

**Plan Descriptions**—The County contributes to the three plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. In addition, the County contributes to the Elected Officials Retirement Plan (EORP), which is not described due to the plan's relative insignificance to the County's financial statements.

The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the County. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 189 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The *Corrections Officer Retirement Plan* (CGRP) is an agent multiple-employer defined benefit pension plan that covers certain employees of the State of Arizona, Departments of Corrections and Juvenile Corrections, and County employees whose primary duties require direct inmate contact. The CGRP is governed by The Fund Manager of PSPRS and 12 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

Each plan issues a publicly available annual financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS

3300 N. Central Ave.  
P.O. Box 33910  
Phoenix, AZ 85067-3910

(602) 240-2000 or (800) 621-3778

PSPRS, CGRP, and EORP

1020 E. Missouri Ave.  
Phoenix, AZ 85014

(602) 255-5575

**Funding Policy**—The Arizona State Legislature establishes and may amend active plan members' and the County's contribution rates.

*Cost-sharing plans*—For the year ended June 30, 2001, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 2.66 percent (2.17 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2001, 2000, and 1999 were \$592,297, \$572,164 and \$678,276, respectively, which were equal to the required contributions for the year.

**COCHISE COUNTY**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 12 - Retirement Plans (continued)**

*Agent plans*—For the year ended June 30, 2001, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 10.81 percent. Active CORP members were required by statute to contribute 8.5 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 2.27 percent.

**Annual Pension Cost**—The County's pension cost for the two agent plans for the year ended June 30, 2001, and related information follows.

	<u>PSPRS</u>	<u>CORP</u>
Contribution rates:		
County	10.81%	2.27%
Plan members	7.65%	8.50%
Annual pension cost	\$282,738	\$32,717
Contributions made	\$282,738	\$32,717

The current-year annual required contributions for both the PSPRS and CORP were determined as part of their June 30, 2001, actuarial valuations using the entry-age actuarial cost method. The actuarial assumptions included (a) 9 percent investment rate of return and (b) projected salary increases ranging from 6.5 percent to 9.5 percent per year. Both (a) and (b) included an inflation component of 5.5 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 4-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2001, was 20 years.

**Trend Information**—Annual pension cost information for the current and two preceding years follows for each of the agent plans.

<u>Plan</u>	<u>Year Ended June 30</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PSPRS	2001	\$ 282,738	100%	\$ 0
	2000	203,024	100	0
	1999	211,590	100	0
CORP	2001	32,717	100	0
	2000	59,770	100	0
	1999	58,315	100	0

**COCHISE COUNTY**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 12 - Retirement Plans (continued)**

**Analysis of Funding Progress**—The following information was obtained from the three most recent actuarial valuations of the agent plans.

**PSPRS**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/01	\$ 13,819,208	\$ 12,617,044	\$1,202,164	109.5%	\$2,679,198	-
6/30/00	12,734,601	12,547,235	187,366	101.5	2,543,102	-
6/30/99	11,197,758	11,379,883	(182,125)	98.4	2,391,905	7.6%

**CORP**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/01	\$ 3,930,055	\$2,376,160	\$1,553,895	165.4%	\$1,463,174	-
6/30/00	3,634,911	2,269,455	1,365,456	160.2	1,488,627	-
6/30/99	3,147,547	2,283,340	864,207	137.8	1,562,869	-

**Note 13 - County Treasurer's Investment Pool**

Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer. The Treasurer has a fiduciary responsibility to administer those and the County monies under her stewardship. The Treasurer invests, on a pool basis, all idle monies not specifically invested for a fund or program. In addition, the Treasurer determines the fair value of those pooled investments annually at June 30.

The County Treasurer's investment pool is not registered with the Securities and Exchange Commission as an investment company and there is no regulatory oversight of its operations. The pool's structure does not provide for shares and the County has not provided or obtained any legally binding guarantees to support the value of the participants' investments.

**COCHISE COUNTY**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 13 - County Treasurer's Investment Pool (continued)**

Details of each major investment classification follow.

<u>Investment Type</u>	<u>Principal</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Fair Value</u>
Investment in Arizona State Treasurer's Investment pool	\$ 72,138,982	6.0617%	N/A	\$ 72,138,982
U.S. Government securities	10,100,100	5.000%	7/5/2002	10,100,100

A condensed statement of the investment pool's net assets and changes in net assets follows.

Statement of Net Assets

Assets	\$ 83,262,960
Net assets	<u>\$ 83,262,960</u>
Net assets held in trust for:	
Internal participants	\$ 24,107,510
External participants	<u>59,155,450</u>
Total net assets held in trust	<u>\$ 83,262,960</u>

Statement of Changes in Net Assets

Total additions	\$ 247,618,609
Total deductions	<u>244,863,585</u>
Net increase	2,755,024
Net assets held in trust:	
July 1, 2000	<u>80,507,936</u>
June 30, 2001	<u>\$ 83,262,960</u>

**Note 14 – Contingent Liabilities**

**Litigation Claims** – At June 30, 2001 there were several claims and lawsuits pending against the County, the ultimate outcome of which is unpredictable. Consequently, no provision for any liability has been made.

**COCHISE COUNTY**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 15 – Interfund Assets and Liabilities**

The interfund receivables, payables, and operating transfers by fund are as follows:

<u>Funds</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General	\$ 630,200	\$ 242,196	\$ 129,136	\$ 638,358
Special Revenue	682,464	835,906	917,464	987,406
Capital Projects	-	5,407	900,808	905,337
Enterprise	578,520	922,808	958,814	948,619
Internal Service	<u>130,690</u>	<u>15,557</u>	<u>573,498</u>	<u>                    </u>
Total	<u>\$ 2,021,874</u>	<u>\$ 2,021,874</u>	<u>\$ 3,479,720</u>	<u>\$ 3,479,720</u>

**Note 16 – Residual Equity Transfers**

Residual equity transfers for the fiscal year ended June 30, 2001, were funds transferred due to the closing of several Special Revenue Funds.

**Note 17 – Segment Information – Enterprise Funds**

	<u>Bisbee Douglas International Airport</u>	<u>Cochise Health System Long- Term Care Health System</u>	<u>Soild Waste Management System</u>	<u>Total</u>
Operating Revenues	\$ 457,073	\$ 20,582,298	\$ 2,421,655	\$ 23,461,026
Depreciation expense	3,465	9,535	144,540	157,540
Operating income	17,026	322,670	96,277	435,973
Intergovernmental revenues			362,547	362,547
Operating transfers in			958,814	958,814
Operating transfers out			(948,619)	(948,619)
Residual equity transfers out			351	351
Net income	32,568	703,815	635,466	1,371,849
Net working capital	210,597	2,225,036	3,477,961	5,913,594
Total assets	1,909,471	4,545,632	8,986,114	15,441,217
Equipment additions	6,267	102,131	91,905	200,303
Landfill closure and post-closure care costs payable			1,671,398	1,671,398
Contributed capital			158,906	158,906
Retained earnings	1,867,030	2,299,157	6,228,903	10,395,090

**COCHISE COUNTY**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 18 – Restatement of Enterprise Fund Equity**

At June 30, 2001, a correction of an error was made to the prior period of \$168,781 in the County's Enterprise Fund for interest income that was previously not recorded. This interest income was earned by cash held in the State Treasurer's Investment Pool for the County's Solid Waste Management System. The effect of this correction was an increase in net income for the year ended June 30, 2000, and an increase in beginning fund equity at July 1, 2001, of \$168,781 in the County's Enterprise Fund.

## **Supplementary Information**

**COCHISE COUNTY**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2001**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
Passed through the Arizona Department of Health Services Special Supplemental Food Program for Women, Infants and Children	10.557	761089	\$ 515,709
Passed through Arizona State Treasurer Schools and Roads - Grants to State and Counties	10.665	NONE	48,374
Passed through the Arizona Department of Education Child Nutrition Program	10.555	NONE	15,056
U.S. Forest Service Cooperative Forestry Act	10.664		4,211
Emergency Watershed Protection Program	10.68945714		63,146
Total U.S. Department of Agriculture			<u>646,496</u>
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>			
Section 8 Cluster Section 8 Rental Voucher Program	14.871		1,287,606
Passed through the Arizona Department of Commerce Community Development Block Grants	14.228	NONE	67,892
Total U.S. Department of Housing and Urban Development			<u>1,355,498</u>
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>			
Immigration and Naturalization Act	16.572		257,437
Passed through the Arizona Department of Public Safety Crime Victim Compensation	16.575	2000-VA-GX-0004	68,724
Crime Victim Assistance	16.576	NONE	9,387
Drug Control and System Improvement	16.579	PC-050-01 AC-080-01 CRI-01-032	307,728
Public Safety Partnership and Community Policing Grants	16.710		58,535
Local Law Enforcement Block Grant	16.592		12,315
Drug Free Workplace	16.589		130,634
Omnibus Crime Control and Safe Streets	16.580		489,039
Passed through State of Arizona Governor's Community Policy Office Juvenile Accountability Incentive Block Grant	16.523	00JAIBG-02	147,973
Cannabis Eradication Program	16.UNKNOWN		3,003
Executive Office for the United States Attorney Southwest Border Local Assistance Initiative	16.UNKNOWN		943,302
Total U.S. Department of Justice			<u>2,428,077</u>

See accompanying notes to schedule.

**COCHISE COUNTY**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2001**  
**(continued)**

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b><u>U.S. DEPARTMENT OF LABOR</u></b>			
Passed through the Arizona Department of Economic Security Workforce Investment Act	17.250	E5709011	1,111,911
Total U.S. Department of Labor			<u>1,111,911</u>
<b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b>			
Passed through the Arizona Department of Emergency and Military Affairs Emergency Preparedness Planning Grant	20.703	NONE	14,526
Passed through the Arizona Department of Public Safety Enhanced Highway Safety Enforcement Program	20.600	NONE	71,376
Total U.S. Department of Transportation			<u>85,902</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
Passed through the Arizona Supreme Court Title I Program for Disadvantaged Children	84.010	NONE	14,551
Total U.S. Department of Education			<u>14,551</u>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>			
Passed through the Southeastern Arizona Governments Organization Social Service Block Grant Special Programs for the Aging-Title III Part B	93.044	NONE	176,911
Passed through the Arizona Department of Health Services HIV Prevention	93.940	152010	25,683
Preventive Health and Health Services Block Grant	93.991	952014 304057	110,118
HIV Care Formula Grants	93.917	652041	168,109
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	052006	1,140
Maternal and Child Health Services Block Grant to the State	93.994	961121	73,025
Passed through the Arizona Department of Economic Security Child Support Enforcement	93.563	E7201003	551,989
Total U.S. Department of Health and Human Services			<u>1,106,975</u>

See accompanying notes to schedule.

**COCHISE COUNTY**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2001**  
**(continued)**

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<b><u>OFFICE OF NATIONAL DRUG CONTROL POLICY</u></b>			
Passed through the Pima County Sheriff's Department			
High Intensity Drug Trafficking Areas	07.UNKNOWN	I1PSAP549	482,407
Total Office of National Drug Control Policy			<u>482,407</u>
<b><u>U.S. DEPARTMENT OF THE INTERIOR</u></b>			
Payment in Lieu of Taxes - Section I	15.226		657,510
Passed through the Arizona State Treasurer			
Taylor Grazing	15.UNKNOWN	NONE	10,091
Total U.S. Department of the Interior			<u>667,601</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><b>\$ 7,899,418</b></u>

See accompanying notes to schedule.

**COCHISE COUNTY**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2001**

**Note 1 - Basis of Accounting**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Cochise County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**Note 2 - Catalog of Federal Domestic Assistance (CFDA) Numbers**

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2001 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the federal contract number was used.

**Note 3 - Subrecipients**

From the federal expenditures presented in the schedule, the County awarded the following to subrecipients.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Workforce Investment Act	17.250	\$ 1,111,911

**REPORTS ON COMPLIANCE AND INTERNAL CONTROL**

**THIS PAGE LEFT BLANK INTENTIONALLY**

**Independent Auditors' Report on Compliance and on Internal Control over  
Financial Reporting Based on an Audit of Primary Government Financial Statements  
Performed in Accordance with Government Auditing Standards**

The Auditor General of the State of Arizona

The Board of Supervisors of  
Cochise County, Arizona

We have audited the primary government financial statements of Cochise County as of and for the year ended June 30, 2001, and have issued our report thereon dated December 12, 2001, which was modified due to the omission of the component unit's financial data. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the County's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of primary government financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the primary government financial statements and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the County's

ability to record, process, summarize, and report financial data consistent with the assertions of management in the primary government financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as item 01-01 and 01-02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all such internal control matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above as item 01-01 and 01-02 to be a material weaknesses. We also noted other matters involving internal control over financial reporting that we have reported to the County's management in a separate letter dated December 12, 2001.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the County's Board of Supervisors, federal awarding agencies, and pass-through entities. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

CHRISTENSEN, GALE & MCLAREN, LLP

December 12, 2001

**Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance in  
Accordance with OMB Circular A-133**

The Auditor General of the State of Arizona

The Board of Supervisors of  
Cochise County, Arizona

**Compliance**

We have audited the compliance of Cochise County with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit and the report of the other auditors.

Cochise County's primary government financial statements and schedule of expenditures of federal awards do not include the financial data of the Cochise Private Industry Council, Inc. (CPIC), a component unit of Cochise County administering the Workforce Investment Act (WIA). Our audit, described below, did not include the operations of the CPIC because that component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

As described in item 01-05 in the accompanying section of federal award findings, Cochise County did not comply with the requirement of taking a physical inventory of fixed assets that is applicable to the Child Support Enforcement Program. Compliance with such a requirement is necessary, in our opinion, for the County to comply with its requirement applicable to this program.

In our opinion, based on our audit, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings as items 01-03, 01-04 and 01-06 through 01-09.

### **Internal Control Over Compliance**

The County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 01-03, 01-04 and 01-06 through 01-09.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all such internal control matters that might be reportable conditions and, accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of the members of the Arizona State Legislature, Auditor General of the State of Arizona, the Cochise County Board of Supervisors,

Cochise County, Arizona  
Page Three  
December 12, 2001

federal awarding agencies, and pass-through entities. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

CHRISTENSEN, GALE & MCLAREN, LLP

December 12, 2001

**COCHISE COUNTY**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2001**

**Summary of Auditors' Results**

***Financial Statements***

Type of auditor's report issued:		Unqualified
	<b>Yes</b>	<b>No</b>
Material weakness identified in internal control over financial reporting?	<u>X</u>	___
Reportable conditions identified not considered to be material weaknesses?	___	<u>X</u>
Noncompliance material to the financial statements noted?	<u>X</u>	___

***Federal Awards***

Material weakness identified in internal control over major programs?		<u>X</u> ___
Reportable conditions identified not considered to be material weaknesses?	<u>X</u>	___
Type of auditor's report issued on compliance for major programs:		Qualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>X</u>	___

**Identification of major programs:**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.871	<i>Section 8 Housing Choice Vouchers</i>
93.563	<i>Child Support Enforcement</i>
10.557	<i>Special Supplemental Nutrition Program for Women, Infants, and Children</i>
16.579	<i>Byrne Formula Grant Program</i>
17.250	<i>Workforce Investment Act</i>
15.226	<i>Payment in Lieu of Taxes – Section I</i>
07.UNKNOWN	<i>High Intensity Drug Trafficking Areas</i>
16.580	<i>Omnibus Crime Control and Safe Streets</i>

Dollar threshold used to distinguish between Type A and Type B programs:		\$ <u>300,000</u>
Auditee qualified as low-risk auditee?	___	<u>X</u>

***Other Matters***

Auditee's summary schedule of prior audit findings required to be reported in accordance with Circular A-133 (section .315[b])?		___ <u>X</u>
---	--	--------------

**COCHISE COUNTY**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2001**

**Financial Statement Findings**

01-01

The County did not adequately account for its fixed assets

The County has not performed a physical inventory of fixed assets within two years prior to June 30, 2001. An updated list of substantiated fixed assets was not available for comparison to the fixed assets recorded to the general ledger.

The County should implement an annual physical inventory of fixed assets to occur near the end of the fiscal year. This should be done by employees of the County or contracted with an outside source. This inventory should be observed by the outside accounting firm engaged to audit the County's general purpose financial statements.

We consider this to be a material weakness.

01-02

The County did not record necessary transactions

In several instances the County did not record the necessary transactions to the accounting system in order to prevent the financial statements from being materially misstated. We noted the following unrecorded transactions to the County's books:

1. The County Treasurer did not record interest received on investments held by the treasurer for June 2001. This unrecorded amount understated revenues by approximately \$180,000.
2. The County Treasurer did not record interest received on investments held by the treasurer from inception of the Landfill investment account. The unrecorded amount understated income by approximately \$170,000.
3. Several outstanding County warrants that were outstanding for more than one year were not voided as required by *Arizona Revised Statutes*.

We recommend the County adopt the necessary procedures to ensure that all the required transactions are recorded to their accounting system to reduce the risk of material misstatements to the financial statements.

We consider this to be a material weakness.

**COCHISE COUNTY**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2001**

**Federal Award Findings**

1-03  
CFDA No.: 14.871 **Section 8 Housing Choice Vouchers**  
**U.S. Department of Housing and Urban Development**  
Award Year: October 1, 2000 through September 30, 2001  
Reporting

Questioned Cost—\$172,020

The County's Department of Housing and Urban Development (HUD) department did not reconcile amounts reported to HUD with the County's general ledger. Each area of the balance sheet and income statement contained differences between the annual report (Form HUD-52681) filed with HUD and the amounts recorded in the County's general ledger. The questioned costs equal a net of \$131,897 of net income and \$172,020 in the fund balance.

The County should prepare a reconciliation of the balances before reporting the annual activity on Form HUD-52681. When the amounts do not agree, the County should make the necessary adjustments to correct the differences.

01-04  
CFDA No.: 14.871 **Section 8 Housing Choice Vouchers**  
**U.S. Department of Housing and Urban Development**  
Award Year: October 1, 2000 through September 30, 2001  
Special Tests and Provisions

Questioned Cost—\$42,000

At the time of fieldwork, the County's HUD department had issued approximately 309 of the 404 vouchers the County is allotted to issue. The administration fee the County is allowed is \$36.90 per month for each participant. The County has forgone approximately \$42,000 (annualized) of administration fees that can be used for administration costs of the program.

The County should increase the number of briefings held each month to accelerate the number of new participants to the program and use up the allotted 404 vouchers.

The County's HUD department had utility allowance worksheets that had not been reviewed at least once annually.

The County should date all of their utility allowance worksheets to ensure that utility allowances are reviewed at least annually.

**COCHISE COUNTY**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2001**

01-05

CFDA No.: 93.563 **Child Support Enforcement**  
**U.S. Department of Health and Human Services**

Award Year: July 1, 2000 through July 30, 2001

As subcontracted from Arizona Department of Economic Security

Contract Number E7201003

Equipment and Real Property Management

Questioned Cost—Unknown

The County conducted a physical inventory of fixed assets more than two years ago. Refer to the Financial Statement Finding 01-01 for additional information.

In addition to requiring a physical inventory at least once every two years, the Arizona Department of Economic Security (DES) requires the Department of Child Support Enforcement (DCSE) to keep accurate inventory records with several contract stipulations. Those required items not found on the inventory records include the following:

- original cost of the asset
- percentage of Federal participation in the cost
- condition or status of asset
- method used to determine current fair market value (replacement cost)

The County should implement: 1) a fixed asset inventory system, or 2) supplemental reports, to record the additional required information for each area of its federal and state award programs.

01-06

CFDA No.: 93.563 **Child Support Enforcement**  
**U.S. Department of Health and Human Services**

Award Year: July 1, 2000 through July 30, 2001

As subcontracted from Arizona Department of Economic Security

Contract Number E7201003

Procurement

Questioned Cost—Unknown

The County did not provide evidence or documentation on one of twenty-seven items tested to indicate that oral or written bids were obtained according to County procurement procedures.

The County should provide documentation with the purchase orders and check copies to document that procurement procedures were followed.

**COCHISE COUNTY**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2001**

01-07

CFDA No.: 93.563 **Child Support Enforcement**

**U.S. Department of Health and Human Services**

Award Year: July 1, 2000 through July 30, 2001

As subcontracted from Arizona Department of Economic Security

Contract Number E7201003

Matching, Level of Effort, Earmarking

Questioned Cost—Unknown

The County is required to provide “level of effort” monitoring. No evidence was produced during fieldwork to indicate the County is monitoring or following-up on the level of efforts and enforcement by the DCSE staff. In addition, we relied on other auditors of the State of Arizona for the audit of their computer software system—Arizona Tracking and Locate Automated System (ATLAS)—implemented and maintained by Arizona DES. The Cochise County DCSE is required to utilize ATLAS to abide by the contract. The scope of our audit did not include procedures to audit the management and implementation of ATLAS at the state level. Therefore, the following comments are based on the use of ATLAS.

- a. We relied on other auditors of the State of Arizona to confirm that DES applications for child support were processed by the State and entered into ATLAS. The scope of our audit did not include auditing the State’s central processing for controls of input.
- b. We noted no evidence of written or verbal control measures to ensure that cases are established or attempted for child support obligations by DCSE staff.
- c. We noted no evidence of written or verbal control measures to ensure that follow-up actions take place on the items presented on ATLAS requiring DCSE staff attention.
- d. We noted no evidence of written or verbal control measures to ensure that follow-up procedures to establish and/or enforce medical support by DCSE staff were in place.

01-08

CFDA No.: 93.563 **Child Support Enforcement**

**U.S. Department of Health and Human Services**

Award Year: July 1, 2000 through July 30, 2001

As subcontracted from Arizona Department of Economic Security

Contract Number E7201003

Reporting

Questioned Cost—Unknown

The County is reimbursed according to the submitted budget of DCSE for portions of the administrative costs in conducting child support enforcement including wages, employee related expenses, and department equipment. The DCSE is required to file financial reports—which serves as the cost reimbursement application—no later than the 28<sup>th</sup> day following each reporting month during the agreement term. Such reports shall cover contract services and expenditures for child support personnel, equipment, services, and supplies for the proceeding reporting month. These reports were consistently filed after the due date.

The County should file these reports on a timely basis to accelerate the time frame to recovering these costs.

**COCHISE COUNTY**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2001**

01-09

CFDA No.: 93.563 **Child Support Enforcement**

**U.S. Department of Health and Human Services**

Award Year: July 1, 2000 through July 30, 2001

As subcontracted from Arizona Department of Economic Security

Contract Number E7201003

Special Tests and Provisions

Questioned Cost—Unknown

Included in the contract with Arizona DES, the contractor (Cochise County) must provide Worker's Compensation insurance. Proof of Insurance certificates were unavailable at the time of fieldwork.

The County should maintain copies of all Proof of Insurance certificates indicating coverage for each fiscal year in one central location.



Finance Director  
Email: [bpender@co.cochise.az.us](mailto:bpender@co.cochise.az.us)

County of Cochise  
P.O. BOX 225  
BISBEE, ARIZONA 85603

Fax (520) 432-9208

March 27, 2002

Ms. Debra K. Davenport, CPA  
Auditor General  
2910 N. 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying corrective action plan has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date for each audit finding included in the current year's schedule of findings and questioned costs.

Sincerely,

Robert W. Pender  
Finance Director

## **Financial Statement Findings and Questioned Costs**

The reportable conditions from the June 30, 2001 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

### 01-01

Physical Inventory of Fixed Assets

Contact Person: Robert Pender, Finance Director

Anticipated Completion Date: June 30, 2002

Program recommendations include:

The County should implement an annual physical inventory of fixed assets to occur near the end of the fiscal year. This should be done by employees of the County or contracted with an outside source. This inventory should be observed by the outside accounting firm engaged to audit the County's general purpose financial statements.

*Action Planned: An inventory of fixed assets is scheduled to be completed by County staff not later than June 30, 2002.*

### 01-02

Recording of County's Transactions

Contact Person: Darlene Loper, Accounting Supervisor

Anticipated Completion Date: June 30, 2002

Program recommendations include:

1. The County Treasurer should record interest received on the investments held by the treasurer for June of the current fiscal year.
2. The County Treasurer should record interest received on the investments held by the treasurer for the Landfill account.
3. The County should ensure that all warrants outstanding for more than one year are voided and the County's cash balance adjusted accordingly.

*Action Planned: The Finance Department will establish procedures to monitor investment accounts and ensure that earned interest is properly recorded.*

*The warrants outstanding for more than one year are restitution payments to individuals issued primarily in the judicial departments. Procedures will be reviewed and modified as necessary to ensure that departments are complying with the applicable statutes and the State's abandoned property laws.*

## **Federal Award Findings and Questioned Costs**

### 01-03

CFDA No.: 14.871 Section 8 Housing Choice Vouchers

Contact Person: Jarrie Tent, Acting Director

Anticipated Completion Date: June 30, 2002

Program recommendations include:

1. The County should prepare a reconciliation of the amounts before reporting the annual activity on Form HUD-52681 when the amounts do not agree and make the necessary adjustments to correct the differences.
2. The County should increase the number of briefings held each month to accelerate more new participants to the program and use up all of the allotted 404 vouchers.

*Action Planned: The Finance Department will establish procedures to reconcile the County's financial records with those of the Housing Department's outside accounting service as reported on Form HUD-52681. Required corrections will be posted by the County or reported to the outside accountants as appropriate.*

*The Housing Division has hired an additional intake person for the specific purpose of increasing the number of housing units (vouchers used). The number of leased units has increased to 350 in February 2002.*

### 01-04

CFDA No.: 14.871 Section 8 Housing Choice Vouchers

Contact Person: Jarrie Tent, Acting Director

Anticipated Completion Date: June 30, 2002

Program recommendations include:

1. The County should date all of their utility allowance worksheets to ensure that utility allowances are reviewed at least annually.

*Action Planned: The Housing Division will review the Utility Allowance Worksheets at least annually and maintain a file on each area of the County. The most recent copies on file are dated July 1, 2001. The Utility Allowance Worksheets will be reviewed again not later than July 2002.*

01-05

CFDA No.: 93.563 Child Support Enforcement  
Contact Person: Robert Pender, Finance Director  
Anticipated Completion Date: June 30, 2002

Program recommendations include:

1. The County should implement a fixed asset inventory system or supplemental report to record the required information for each area of its federal and state award programs requiring additional information and reporting on its fixed assets.

*Action Planned: A fixed asset inventory is scheduled to be completed by County staff not later than June 30, 2002. The information required for assets acquired by federal or state programs will either be recorded in the current fixed asset system if possible or supplemental records will be maintained.*

01-06

CFDA No.: 93.563 Child Support Enforcement  
Contact Person: Carol Nichols, Purchasing Supervisor  
Anticipated Completion Date: June 30, 2002

Program recommendations include:

1. The County should provide documentation with the purchase orders and check copies to document that procurement procedures were followed.

*Action Planned: Most computer equipment is purchased through the County's cooperative purchasing agreement with the State of Arizona utilizing contracts issued by the Arizona State Procurement Office. The Purchasing Division of the Finance Department will establish procedures to ensure that the provisions of the County purchasing policy are followed e.g. cite the state contract used or document the quotations received.*

01-07

CFDA No.: 93.563 Child Support Enforcement  
Contact Person: Jeanne Benda Whitney, Deputy County Attorney  
Anticipated Completion Date: June 30, 2002

Program recommendations include:

1. The County should adopt written procedures to better monitor the program as specified in the contract.

*Action Planned: Procedures will be reviewed and documented as necessary to ensure that the Child Support Enforcement Program is monitored as specified in the contract.*

01-08

CFDA No.: 93.563 Child Support Enforcement

Contact Person: Frank Cruz, Finance Manager; Jeanne Benda Whitney, Deputy County Attorney

Anticipated Completion Date: June 30, 2002

Program recommendations include:

1. The County should file the required Child Support Enforcement reports for expense reimbursement on a timely basis to accelerate the time frame to recovering these costs.

*Action Planned: Procedures have been established between the Child Support Enforcement Division and the County Attorney's Finance Manager to ensure that expense reimbursement reports are filed on a timely basis.*

01-09

CFDA No.: 93.563 Child Support Enforcement

Contact Person: Chris Mullinax, Risk Manager

Anticipated Completion Date: June 30, 2002

Program recommendations include:

1. Included in the contract with Arizona DES, the contractor (Cochise County) must provide Worker's Compensation insurance. Proof of Insurance certificates were unavailable at the time of fieldwork.

*Action Planned: Proof of Workers Compensation insurance coverage is maintained by the County's Risk Manager in the Human Resources Department.*